

REPORT BY THE  
AUDITOR GENERAL  
OF CALIFORNIA

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**STATE OF CALIFORNIA  
FINANCIAL REPORT  
YEAR ENDED JUNE 30, 1986**

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REPORT BY THE  
OFFICE OF THE AUDITOR GENERAL

F-600

STATE OF CALIFORNIA  
FINANCIAL REPORT  
YEAR ENDED JUNE 30, 1986

MARCH 1987



Telephone:  
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STATE OF CALIFORNIA  
**Office of the Auditor General**

660 J STREET, SUITE 300  
SACRAMENTO, CA 95814

Thomas W. Hayes  
Auditor General

March 4, 1987

F-600

Honorable Art Agnos, Chairman  
Members, Joint Legislative  
Audit Committee  
State Capitol, Room 3151  
Sacramento, California 95814

Dear Mr. Chairman and Members:

The Office of the Auditor General presents the financial report of the State of California for the year ended June 30, 1986. This financial report includes an introductory section with an overview prepared by the State Controller; a financial section with the State's General Purpose Financial Statements presented on a basis in conformity with generally accepted accounting principles (GAAP); and a statistical section with important labor, income, and population statistics.

The financial statements show that the General Fund has an excess of expenditures over revenues of \$651 million for the fiscal year ending June 30, 1986. The GAAP statements include all liabilities owed by the State while the legal basis statements used for budgeting do not reflect all liabilities.

Respectfully submitted,

A handwritten signature in cursive script that reads "Thomas W. Hayes".

THOMAS W. HAYES  
Auditor General

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## **INTRODUCTORY SECTION**



GRAY DAVIS

*Controller of the State of California*

SACRAMENTO, CALIFORNIA 94250-5872

February 20, 1987

People of the State of California  
Honorable George Deukmejian,  
Governor  
Honorable David Roberti,  
Senate President pro Tempore  
Honorable Willie L. Brown, Jr.,  
Speaker of the Assembly

Attached are the General Purpose Financial Statements of the State of California prepared in accordance with generally accepted accounting principles (GAAP). This report meets the disclosure standards of the accounting profession and is primarily intended to meet the needs of users outside of state government. My Annual Report, prepared on a legal/budgetary basis which is in compliance with existing state laws and state accounting principles, should continue to be used as a focal point for past executions of the State's budget as well as for future budget planning.

On a legal/budgetary basis, the General Fund, the main operating fund of the State, ended the 1985-86 fiscal year operations with a deficit of \$761 million. Pursuant to Section 16418(b) of the Government Code, the deficit was eliminated by the transfer of a like amount from the Special Fund for Economic Uncertainties. Consequently, the Special Fund for Economic Uncertainties was reduced to \$443 million at June 30, 1986, representing a reduction of 67.9 percent.

Under the GAAP basis, the General Fund ended the 1985-86 fiscal year operations with a deficit of \$651 million. This operational deficit results in a zero balance in the Special Fund for Economic Uncertainties and a negative Undesignated Fund Balance of \$303 million. A reconciliation between the legal/budgetary fund balance to the GAAP basis fund balance of the General Fund is presented in Note 3 of this report.

The State Controller's Office is striving to have the Annual Report issued by December 31 while not sacrificing its accuracy or completeness. To accomplish this however, will require earlier reporting of year-end data by state agencies.

My staff and I wish to express our appreciation to all state agencies for their assistance and to the Auditor General's staff for their audit of the financial statements contained in this report.

Best Regards,

*Gray Davis*

GRAY DAVIS  
State Controller

## STATE CONTROLLER'S OVERVIEW

In accordance with Sections 12460 and 12461 of the Government Code, I am pleased to submit to you the General Purpose Financial Statements of the State of California for the fiscal year ended June 30, 1986. This report has been prepared in accordance with generally accepted accounting principles (GAAP) and has been examined by the Auditor General of the State of California. The Auditor General's opinion confirms that, with the exception of general fixed assets, the information is fairly presented in accordance with generally accepted accounting principles.

The State Controller's Office is also required by law to publish the State of California Annual Report (the "legal basis financial report"). The legal basis financial report is prepared in accordance with legal and regulatory requirements and is used for reporting on the execution of the State's budget as well as for future budget planning. The accounting records of state agencies are maintained on the legal basis for the primary purpose of maintaining accountability over the State's budget and fiscal legislation; they are the records used as the basis for audit. After the legal basis report is prepared, adjustments are made to prepare the GAAP basis report.

A reconciliation of the two accounting bases for the General Fund, along with an explanation of the primary differences, is provided on pages 36 through 39 of this report. A reconciliation showing the differences between the two accounting bases for the Special Revenue fund balances is provided on page 41 of this report.

### General Fund Condition-Legal Basis

Legislation enacted in June 1985 discontinued the Reserve for Economic Uncertainties within the General Fund and established a Special Fund for Economic Uncertainties. The legislation also required the transfer of any balance in the Reserve for Economic Uncertainties to the Special Fund for Economic Uncertainties.

The purpose of setting aside the funds is to protect the General Fund from any unforeseen downturn in the State's economy, to cover any deficit incurred by the fund, or to provide for any unanticipated emergency. Monies held in the Special Fund for Economic Uncertainties may be transferred by the State Controller as necessary to meet cash needs of the General Fund. The State Controller is further required to return all such monies transferred, without payment of interest, as soon as there are sufficient monies in the General Fund.

For budgeting and accounting purposes, any appropriation made from the Special Fund for Economic Uncertainties is deemed an appropriation from the General Fund. For year-end reporting purposes, the State Controller is required to add the balance in the General Fund



to show the total resources available for General Fund purposes. On June 30, 1986, the balance of the Special Fund for Economic Uncertainties was down to \$443 million, due mainly to the transfer of \$761 million to the General Fund to cover its 1985-86 fiscal year deficit.

### Cash Management

To meet cash needs during the 1985-86 fiscal year, the State issued \$2.3 billion in revenue anticipation notes. All notes matured before the end of June 1986 and were paid from available monies in the General Fund.

In August 1986, the State issued \$2.6 billion in revenue anticipation notes to meet the cash flow needs of the General Fund for fiscal year 1986-87. All notes will mature before the end of June 1987 and will be payable from available monies in the General Fund, including, if necessary, amounts that may be borrowed from the special funds of the State.

### Current General Obligation Bond Rating and Debt Position

The State continues to maintain its superior bond accreditation. The current general obligation bond ratings are as follows:

- Moody's                      Aa
- Standard & Poor's        AAA
- Fitch Investors            AAA

The general obligation debt position of the State at June 30, 1986, is provided in Note 11, pages 46 through 48 of the financial section. In accordance with the Constitution, this debt was approved by two-thirds of both houses of the Legislature and by a majority of the electorate voting in a general election or a direct primary.

### Fixed Assets

The State is in the process of developing adequate fixed asset records for its governmental fund type property, plant, and equipment in order to meet the requirements of generally accepted accounting principles.

### Economic Outlook

California's economy calls for moderate growth through 1987. The State is being only moderately affected by the pause in the economy that is occurring nationally. California is, therefore, expected to outpace the nation.

**OFFICIALS OF THE  
STATE OF CALIFORNIA**

**EXECUTIVE**

George Deukmejian  
Governor

Leo T. McCarthy  
Lieutenant Governor

Gray Davis  
State Controller

John Van de Kamp  
Attorney General

Jesse M. Unruh  
State Treasurer

March Fong Eu  
Secretary of State

Bill Honig  
Superintendent of Public Instruction

**LEGISLATIVE**

David Roberti  
President pro Tempore, Senate

Willie L. Brown, Jr.  
Speaker of the Assembly

**JUDICIAL**

Malcolm M. Lucas  
Chief Justice, State Supreme Court

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graph TD
    GOV[GOVERNOR] --- LG[LEUTENANT GOVERNOR]
    GOV --- SECSTATE[SECRETARY OF STATE]
    GOV --- SUPINSTR[SUPERINTENDENT OF PUBLIC INSTRUCTION]
    GOV --- COMED[COMMISSION FOR ECONOMIC DEVELOPMENT]
    GOV --- GO[GOVERNOR'S OFFICE]
    GOV --- DEPTED[DEPARTMENT OF EDUCATION]
    GOV --- DEPTFIN[DEPARTMENT OF FINANCE]
    GOV --- DEPTHEALTH[DEPARTMENT OF HEALTH AND WELFARE]
    GOV --- DEPTAG[DEPARTMENT OF AGRICULTURE]
    GOV --- DEPTCORR[DEPARTMENT OF CORRECTIONS]
    GOV --- DEPTENV[DEPARTMENT OF ENVIRONMENTAL AFFAIRS]
    GOV --- DEPTIND[DEPARTMENT OF INDUSTRIAL RELATIONS]
    GOV --- DEPTRES[DEPARTMENT OF RESOURCES AGENCY]
    GOV --- DEPTPLANNING[DEPARTMENT OF PLANNING AND RESEARCH]
    GOV --- DEPTCRIM[DEPARTMENT OF CRIMINAL JUSTICE PLANNING]
    GOV --- DEPTADM[DEPARTMENT OF ADMINISTRATIVE LAW]
    GOV --- DEPTPERSONNEL[DEPARTMENT OF PERSONNEL ADMINISTRATION]
    GOV --- DEPTATTORNEY[DEPARTMENT OF ATTORNEY GENERAL]
    GOV --- DEPTEQU[DEPARTMENT OF EQUALIZATION]
    GOV --- DEPTJUST[DEPARTMENT OF JUSTICE]

    LG --- COMED
    COMED --- BOE[BOARD OF EDUCATION]
    COMED --- BGC[BOARD OF GOVERNORS, STATE COMMUNITY COLLEGES]
    COMED --- CPE[CALIFORNIA POSTSECONDARY EDUCATION COMMISSION]
    COMED --- PER[PUBLIC EMPLOYMENT RELATIONS BOARD]
    COMED --- PUBUTIL[PUBLIC UTILITIES COMMISSION]

    SECSTATE --- TRUSTEES[TRUSTEES OF STATE UNIVERSITIES]
    SECSTATE --- UNICALIF[UNIVERSITY OF CALIFORNIA BOARD OF REGENTS]
    SECSTATE --- SLAC[STATE LANDS COMMISSION]
    SECSTATE --- FAPC[FAIR POLITICAL PRACTICES COMMISSION]
    SECSTATE --- CAEC[CALIFORNIA ENERGY COMMISSION]
    SECSTATE --- ALRB[AGRICULTURAL LABOR RELATIONS BOARD]
    SECSTATE --- MDC[MILITARY DEPARTMENT]
    SECSTATE --- STPD[STATE PUBLIC DEFENDER]
    SECSTATE --- WTC[WORLD TRADE COMMISSION]

    SUPINSTR --- DEPTED
    DEPTED --- BOE
    BOE --- CALTRANS[CALIFORNIA TRANSPORTATION COMMISSION]
    BOE --- CALLOT[CALIFORNIA STATE LOTTERY]

    DEPTFIN --- DEPTCORR
    DEPTFIN --- DEPTAG
    DEPTFIN --- DEPTIND
    DEPTFIN --- DEPTRES
    DEPTFIN --- DEPTPLANNING
    DEPTFIN --- DEPTCRIM
    DEPTFIN --- DEPTADM
    DEPTFIN --- DEPTPERSONNEL
    DEPTFIN --- DEPTATTORNEY
    DEPTFIN --- DEPTEQU
    DEPTFIN --- DEPTJUST
  
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The organizational chart of the State of California is structured as follows:

- GOVERNOR**
  - LEUTENANT GOVERNOR**
    - COMMISSION FOR ECONOMIC DEVELOPMENT**
      - BOARD OF EDUCATION
        - CALIFORNIA TRANSPORTATION COMMISSION
        - CALIFORNIA STATE LOTTERY
      - BOARD OF GOVERNORS, STATE COMMUNITY COLLEGES
      - CALIFORNIA POSTSECONDARY EDUCATION COMMISSION
      - PUBLIC EMPLOYMENT RELATIONS BOARD
      - PUBLIC UTILITIES COMMISSION
  - SECRETARY OF STATE**
    - TRUSTEES OF STATE UNIVERSITIES
    - UNIVERSITY OF CALIFORNIA BOARD OF REGENTS
    - STATE LANDS COMMISSION
    - FAIR POLITICAL PRACTICES COMMISSION
    - CALIFORNIA ENERGY COMMISSION
    - AGRICULTURAL LABOR RELATIONS BOARD
    - MILITARY DEPARTMENT
    - STATE PUBLIC DEFENDER
    - WORLD TRADE COMMISSION
  - SUPERINTENDENT OF PUBLIC INSTRUCTION**
    - DEPARTMENT OF EDUCATION**
      - BOARD OF EDUCATION
        - CALIFORNIA TRANSPORTATION COMMISSION
        - CALIFORNIA STATE LOTTERY
  - COMMISSION FOR ECONOMIC DEVELOPMENT**
    - BOARD OF EDUCATION
      - CALIFORNIA TRANSPORTATION COMMISSION
      - CALIFORNIA STATE LOTTERY
    - BOARD OF GOVERNORS, STATE COMMUNITY COLLEGES
    - CALIFORNIA POSTSECONDARY EDUCATION COMMISSION
    - PUBLIC EMPLOYMENT RELATIONS BOARD
    - PUBLIC UTILITIES COMMISSION
  - GOVERNOR'S OFFICE**
  - DEPARTMENT OF FINANCE**
    - DEPARTMENT OF CORRECTIONS
    - DEPARTMENT OF AGRICULTURE
    - DEPARTMENT OF INDUSTRIAL RELATIONS
    - SECRETARY OF RESOURCES AGENCY
    - DEPARTMENT OF PLANNING AND RESEARCH
    - DEPARTMENT OF CRIMINAL JUSTICE PLANNING
    - DEPARTMENT OF ADMINISTRATIVE LAW
    - DEPARTMENT OF PERSONNEL ADMINISTRATION
  - DEPARTMENT OF HEALTH AND WELFARE**
    - SECRETARY OF HEALTH AND WELFARE
  - DEPARTMENT OF AGRICULTURE**
  - DEPARTMENT OF CORRECTIONS**
  - DEPARTMENT OF ENVIRONMENTAL AFFAIRS**
    - SECRETARY OF ENVIRONMENTAL AFFAIRS
  - DEPARTMENT OF JUSTICE**
    - ATTORNEY GENERAL
  - DEPARTMENT OF EQUALIZATION**

**FINANCIAL SECTION**



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STATE OF CALIFORNIA  
**Office of the Auditor General**  
660 J STREET, SUITE 300  
SACRAMENTO, CA 95814

Thomas W. Hayes  
Auditor General

Members of the Joint Legislative Audit Committee  
State of California


We have examined the General Purpose Financial Statements of the State of California as of and for the year ended June 30, 1986, as listed in the table of contents. Except for the General Fixed Asset Account Group, as explained in the next paragraph, our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of the Pension Trust Funds which reflect total assets constituting 68 percent of the Fiduciary Funds. We also did not examine the financial statements of certain Enterprise Funds, which reflect total assets and revenues constituting 86 percent and 94 percent, respectively, of the Enterprise Funds. In addition, we did not examine the University of California Funds. The financial statements of the Pension Trust Funds, certain Enterprise Funds, and the University of California Funds referred to above were examined by other auditors who furnished their reports to us. Thus, our opinion, insofar as it relates to the amounts included for the Pension Trust Funds, certain Enterprise Funds, and the University of California Funds, is based solely upon the reports of other independent auditors.

The State has not maintained adequate fixed asset records for its governmental fund type property, plant, and equipment. Consequently, the General Fixed Assets Account Group is not presented in the accompanying financial statements prepared according to generally accepted accounting principles.

In our opinion, based upon our examination and the reports of other independent auditors, and except for the effect of the omission of the General Fixed Assets Account Group, the General Purpose Financial Statements referred to in the first paragraph present fairly the financial position of the State of California as of June 30, 1986, and the results of its operations and the changes in financial position of its Proprietary Funds and Pension Trust Funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

We have not audited the data included in the statistical section in this report, and accordingly, we express no opinion on that data.

OFFICE OF THE AUDITOR GENERAL

  
CURT DAVIS, CPA  
Deputy Auditor General

December 19, 1986

**GENERAL PURPOSE FINANCIAL STATEMENTS**

**STATE OF CALIFORNIA**  
**COMBINED BALANCE SHEET -- ALL FUND TYPES AND ACCOUNT GROUP**  
**AS OF JUNE 30, 1986**  
**(IN THOUSANDS)**

	Governmental Fund Types			Proprietary Fund Types		Fiduciary Fund Type	Account Group
	General	Special Revenue	Capital Projects	Enterprise	Internal Service		
<b>ASSETS</b>							
Cash and pooled investments	\$ 722,824	\$1,136,528	\$876,086	\$ 214,169	\$ 45,718	\$14,205,884	\$ 1,259,813
Investments				2,796,442		47,762,730	8,768,249
Amount on deposit with							
U.S. Treasury							
Receivables (net)	89,754	55,470	4,671	271,132	1,768	3,650,544	625,705
Due from other funds	1,140,215	2,312,231	10,292	3,066,699	156,550	4,507,696	72,489
Due from other governments	7,231	1,363,901	2	8,269	1,044	107,561	137,688
Prepaid expenses	111,734	106,665	4	90,735	3,629	6,606	
Inventory, at cost				26,259	37,522		
Other assets	437	2,419	137	30,201	20	126,362	155,843
Advances and loans receivable	326,258	459,025		5,865,902	19,555	234,474	41,090
Deferred charges				989,540			
Fixed assets				3,756,738	102,585	810	4,961,257
Amounts to be provided for retirement of long-term obligations							
Total Assets	\$2,398,453	\$5,436,239	\$891,192	\$17,116,086	\$368,391	\$72,642,632	\$16,022,134
							\$4,543,488
							\$4,543,488
<b>LIABILITIES AND FUND EQUITY</b>							
<b>Liabilities</b>							
Accounts payable	\$ 375,576	\$ 378,840	\$151,823	\$ 258,233	\$ 61,761	\$ 2,110,257	\$ 499,063
Agreements to repurchase securities						1,056,888	
Due to other funds	611,151	1,348,954	20,666	249,997	56,888	8,906,027	72,489
Due to other governments	374,259	485,099	10,769	2,388	242	5,329,187	
Dividends payable				68,000			
Advances from other funds		3,826	7,458	848,992	68,681	15,580	41,090





**STATE OF CALIFORNIA**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES**  
**ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 1986**  
**(IN THOUSANDS)**

	Governmental Fund Types			Fiduciary Fund Type
	General	Special Revenue	Capital Projects	Expendable Trust
Revenues				
Taxes	\$26,906,255	\$ 840,734		\$3,151,824
Intergovernmental	31,904	9,468,844		44,603
Licenses and permits	124,177	1,113,540		
Natural resources	18,935	185,639	\$222,546	
Charges for services	84,690	127,870		58,371
Fees	307,201	281,221		360
Penalties	7,242	131,624		
Interest	530,453	136,708	11,850	410,501
Miscellaneous	65,308	143,348		120,364
Total Revenues	<u>28,076,165</u>	<u>12,429,528</u>	<u>234,396</u>	<u>3,786,023</u>
Expenditures				
Current				
General government	1,296,279	861,106		73,457
Education	15,340,872	1,612,275		39,408
Health and welfare	8,572,630	5,982,330		3,425,317
Resources	427,259	316,672		66,115
State and consumer services	223,186	488,051		72,137
Business and transportation	66,414	2,756,943		974
Correctional programs	1,213,349	50,711		
Property tax relief	925,750			
Capital outlay	66,872		632,095	
Debt service				
Principal retirement	233,052			
Interest and fiscal charges	211,890			
Total Expenditures	<u>28,577,553</u>	<u>12,068,088</u>	<u>632,095</u>	<u>3,677,408</u>
Other Financing Sources (Uses)				
Proceeds from general obligation bonds		400,000	380,000	70,000
Operating transfers in	57,065	498,013	85,252	210,679
Operating transfers out	(206,675)	(424,830)	(4,071)	(29,419)
Total Other Financing Sources (Uses)	<u>(149,610)</u>	<u>473,183</u>	<u>461,181</u>	<u>251,260</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(650,998)	834,623	63,482	359,875
Fund Balances, July 1, 1985	<u>1,354,340</u>	<u>2,293,618</u>	<u>636,710</u>	<u>4,389,799</u>
Fund Balances, June 30, 1986	<u>\$ 703,342</u>	<u>\$ 3,128,241</u>	<u>\$700,192</u>	<u>\$4,749,674</u>

See the notes accompanying the financial statements.

**STATE OF CALIFORNIA**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES -- BUDGET AND ACTUAL (LEGAL BASIS)**  
**GENERAL AND SPECIAL REVENUE FUND TYPES**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 1986**  
**(IN THOUSANDS)**

	General Fund			Special Revenue Funds		
	Budget	Actual	Variance- Favorable (Unfavorable)	Budget	Actual	Variance- Favorable (Unfavorable)
Revenues						
Taxes		\$26,974,162			\$ 127,031	
Intergovernmental					9,606,916	
Licenses and permits		12,444			1,117,042	
Natural resources		18,935			185,682	
Charges for services		86,396			127,063	
Fees		64,957			281,221	
Penalties		7,032			141,702	
Interest		529,824			137,588	
Miscellaneous		485,686			142,834	
Total Revenues		28,179,436			11,867,079	
Expenditures						
Current						
General government	\$ 1,362,656	1,283,855	\$ 78,801	\$ 910,703	872,962	\$ 37,741
Education	15,098,848	15,045,225	53,623	1,864,413	1,634,940	229,473
Health and welfare	9,073,968	9,000,856	73,112	5,978,793	5,779,304	199,489
Resources	482,876	466,022	16,854	408,600	345,342	63,258
State and consumer services	227,685	225,298	2,387	639,982	634,745	5,237
Business and transportation	69,080	66,777	2,303	3,187,544	2,962,428	225,116
Correctional programs	1,307,629	1,294,806	12,823	113,409	111,725	1,684
Property tax relief	933,965	918,059	15,906			
Capital outlay	66,872	66,872				
Debt service						
Principal retirement	231,185	231,185				
Interest and fiscal charges	212,700	212,700				
Total Expenditures	\$29,067,464	28,811,655	\$255,809	\$13,103,444	12,341,446	\$761,998
Other Financing Sources						
(Uses)						
Proceeds from general obligation bonds					400,000	
Operating transfers in		47,392			3,673,094	
Operating transfers out		(212,002)			(3,199,074)	
Other additions		35,591				
Total Other Financing Sources (Uses)		(129,019)			874,020	
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses		(761,238)			399,653	
Fund Balances, July 1, 1985, as restated		1,447,516			1,091,669	
Fund Balances, June 30, 1986		\$ 686,278			\$ 1,491,322	

See the notes accompanying the financial statements.

STATE OF CALIFORNIA  
**COMBINED STATEMENT OF REVENUES, EXPENSES, AND  
 CHANGES IN RETAINED EARNINGS/FUND BALANCES**  
**ALL PROPRIETARY FUND TYPES AND PENSION TRUST FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 1986**  
 (IN THOUSANDS)

	<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Type</u>
	<u>Enterprise</u>	<u>Internal Service</u>	<u>Pension Trust</u>
Operating Revenues			
Lottery ticket sales	\$1,765,572		
Services and sales	656,299	\$566,779	
Earned premiums, net	725,177		
Investment and interest	760,692		\$ 5,786,101
Contributions			4,309,137
Miscellaneous	635	990	5,661
Total Operating Revenues	<u>3,908,375</u>	<u>567,769</u>	<u>10,100,899</u>
Operating Expenses			
Lottery prizes	886,334		
Personal services	128,567	250,244	22,038
Supplies	45,670	15,498	
Services and charges	538,699	270,482	37,683
Depreciation	51,815	17,579	
Benefit payments	632,025		2,616,443
Interest expense	647,056		
Refunds			167,765
Accrual of deferred charges	(58,127)		
Total Operating Expenses	<u>2,872,039</u>	<u>553,803</u>	<u>2,843,929</u>
Operating Income	<u>1,036,336</u>	<u>13,966</u>	<u>7,256,970</u>
Nonoperating Revenues (Expenses)			
Grants received	1,267		
Grants provided	(20,997)		
Interest revenue	223,833	585	
Rent	16,265		
Interest expense and fiscal charges	(157,338)	(737)	
Loss on early extinguishment of debt	(26,530)		
Refund to federal government		(14,858)	
Total Nonoperating Revenues (Expenses)	<u>36,500</u>	<u>(15,010)</u>	
Operating transfers in	22,951	18,175	
Operating transfers out	(10,569)		
Operating Transfers	<u>12,382</u>	<u>18,175</u>	
Net Income	1,085,218	17,131	7,256,970
Dividends paid	(218,774)		
Lottery payments for education	(692,696)		
Retained Earnings/Fund Balances			
July 1, 1985, as restated	<u>2,735,962</u>	<u>125,295</u>	<u>41,725,144</u>
Retained Earnings/Fund Balances			
June 30, 1986	<u>\$2,909,710</u>	<u>\$142,426</u>	<u>\$48,982,114</u>

See the notes accompanying the financial statements.

STATE OF CALIFORNIA  
**COMBINED STATEMENT OF CHANGES IN FINANCIAL POSITION**  
**ALL PROPRIETARY FUND TYPES AND PENSION TRUST FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 1986**  
**(IN THOUSANDS)**

	<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Type</u>
	<u>Enterprise</u>	<u>Internal Service</u>	<u>Pension Trust</u>
Sources of Financial Resources			
From operations			
Net income	\$1,085,218	\$ 17,131	\$ 7,256,970
Add (deduct) items not affecting cash			
Depreciation	51,815	17,579	
Amortization of bond and note discount and premium	(1,218)		(222,650)
Loss on early extinguishment of debt	26,530		
Accrual of deferred expenses	(39,589)		
Imputed interest earnings	(11,821)		
Total Sources from Operations	1,110,935	34,710	7,034,320
Proceeds from sale of investments	169,754		33,041,973
Collection of advances and loans	157,867	2,882	1,174,141
Proceeds from sale of fixed assets	22,680	289	
Increase in benefits payable	182,206		33,771
Issuance of revenue and general obligation bonds	1,603,384		
Increase in contributed capital	2,355		
Decrease in due from other funds			867,173
Increase in accounts payable	162,082	219	
Increase in other liability accounts	215,220	105,293	117,055
Decrease in other asset accounts		5,483	14,365
Total Sources	3,626,483	148,876	42,282,798
Uses of Financial Resources			
Purchase of investments	322,927		42,347,443
Advances and loans provided	357,091	19,555	
Acquisition of fixed assets	147,815	41,890	9
Retirement of revenue and general obligation bonds	689,839		
Addition to unamortized water project costs	6,717		
Dividends paid	218,774		
Lottery payments for education	692,696		
Increase in due from other funds	1,074,298	83,884	
Increase in other asset accounts	72,093		
Decrease in other liability accounts	10,000		
Total Uses	3,592,250	145,329	42,347,452
Net Increase (Decrease) in Cash	\$ 34,233	\$ 3,547	\$ (64,654)

See the notes accompanying the financial statements.

STATE OF CALIFORNIA  
COMBINED BALANCE SHEET  
ALL UNIVERSITY OF CALIFORNIA FUNDS  
AS OF JUNE 30, 1986  
(IN THOUSANDS)

	Current Funds	Loan Funds	Endowment & Similar Funds	Plant Funds	Retirement System Funds	Total
<b>ASSETS</b>						
Cash and pooled investments	\$ 708,309	\$ 71,737	\$ 99,703	\$ 350,690	\$ 29,374	\$ 1,259,813
Investments			433,869		8,334,380	8,768,249
Receivables (net)	370,273	197,446	649		57,337	625,705
Due from other funds					72,489	72,489
Due from other governments	137,688					137,688
Other assets	148,294			7,549		155,843
Advances and loans receivable	1,545		39,545			41,090
Fixed assets				4,961,257		4,961,257
<b>Total Assets</b>	<b>\$1,366,109</b>	<b>\$269,183</b>	<b>\$573,766</b>	<b>\$5,319,496</b>	<b>\$8,493,580</b>	<b>\$16,022,134</b>
<b>LIABILITIES AND FUND EQUITY</b>						
<b>Liabilities</b>						
Accounts payable	\$ 451,494		\$ 160	\$ 16,591	\$ 30,818	\$ 499,063
Due to other funds	72,489					72,489
Advances from other funds		\$ 2,000		39,090		41,090
Deposits	125,049		18,124			143,173
Mortgages and other borrowings	75,000			306,508		381,508
Net assets available for University of California retirement benefits					8,462,762	8,462,762
Advance collections			8,808			8,808
Revenue bonds payable		65,230		243,570		308,800
<b>Total Liabilities</b>	<b>724,032</b>	<b>67,230</b>	<b>27,092</b>	<b>605,759</b>	<b>8,493,580</b>	<b>9,917,693</b>
<b>Fund Equity</b>						
Investment in general fixed assets				4,442,733		4,442,733
Fund balances						
Reserved for other specific purposes	230,126	154,119	342,851	69,115		796,211
Unreserved Designated for University of California	411,951	47,834	203,823	201,889		865,497
<b>Total Fund Equity</b>	<b>642,077</b>	<b>201,953</b>	<b>546,674</b>	<b>4,713,737</b>		<b>6,104,441</b>
<b>Total Liabilities and Fund Equity</b>	<b>\$1,366,109</b>	<b>\$269,183</b>	<b>\$573,766</b>	<b>\$5,319,496</b>	<b>\$8,493,580</b>	<b>\$16,022,134</b>

See the notes accompanying the financial statements.

STATE OF CALIFORNIA  
 COMBINED STATEMENT OF REVENUES,  
 EXPENDITURES, AND CHANGES IN FUND BALANCES  
 ALL UNIVERSITY OF CALIFORNIA CURRENT FUNDS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 1986  
 (IN THOUSANDS)

Revenues and Other Additions	
Tuition and fees	\$ 329,127
Federal appropriations, grants, and contracts	701,156
State appropriations, grants, and contracts	1,691,315
Private gifts, grants, and contracts	193,443
Sales and services	
Educational activities	283,666
Auxiliary enterprises	261,280
Teaching hospitals	797,479
Local government	32,180
Major Department of Energy laboratories	1,851,296
Other	182,186
Total Revenues and Other Additions	<u>6,323,128</u>
Expenditures and Other Deductions	
Instruction	1,124,310
Research	765,601
Public services	104,091
Academic support	437,902
Teaching hospitals	802,442
Student services	160,769
Institutional support	267,136
Operation and maintenance of plant	199,928
Student financial aid	148,400
Auxiliary enterprises	229,731
Major Department of Energy laboratories	1,844,121
Other	20,211
Total Expenditures and Other Deductions	<u>6,104,642</u>
Other Financing Uses	
Transfers out	<u>(130,840)</u>
Net Increase in Fund Balance	87,646
Fund Balances, July 1, 1985	<u>554,431</u>
Fund Balances, June 30, 1986	<u>\$ 642,077</u>

See the notes accompanying the financial statements.

**STATE OF CALIFORNIA  
COMBINED STATEMENT OF CHANGES IN FUND BALANCES  
UNIVERSITY OF CALIFORNIA FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1986  
(IN THOUSANDS)**

	<u>Current Funds</u>	<u>Loan Funds</u>	<u>Endowment &amp; Similar Funds</u>	<u>Plant Funds</u>
Revenues and Other Additions				
Unrestricted current fund revenues				
General	\$2,363,039			
Auxiliary enterprises and hospitals	1,058,759			
Restricted gifts, grants, and contracts	2,719,144	\$ 244	\$ 19,043	\$ 34,417
Investment and interest income	95,803	4,939	1,648	16,848
Net gain (loss) on sale of investments	1,748		30,577	221
Governmental grants and contracts		3,005		1,139
Debt service fees				4,118
Governmental appropriations				49,255
Expended for plant facilities (including \$281,515 financed from current funds)				394,413
Retirement of indebtedness				36,240
Other	<u>84,635</u>	<u>5,617</u>	<u>1,321</u>	<u>8,227</u>
Total Revenues and Other Additions	<u>6,323,128</u>	<u>13,805</u>	<u>52,589</u>	<u>544,878</u>
Expenditures and Other Deductions				
Current fund expenditures	6,084,431			
Plant fund expenditures				116,539
Debt service				36,240
Principal retirement				32,997
Interest				58,951
Disposals of plant assets				4,108
Other	<u>20,211</u>	<u>9,928</u>	<u>412</u>	
Total Expenditures and Other Deductions	<u>6,104,642</u>	<u>9,928</u>	<u>412</u>	<u>248,835</u>
Transfers in (out)	<u>(130,840)</u>	<u>4,708</u>	<u>2,013</u>	<u>124,119</u>
Net Increase in Fund Balances	87,646	8,585	54,190	420,162
Fund Balances, July 1, 1985	<u>554,431</u>	<u>193,368</u>	<u>492,484</u>	<u>4,293,575</u>
Fund Balances, June 30, 1986	<u>\$ 642,077</u>	<u>\$201,953</u>	<u>\$546,674</u>	<u>\$4,713,737</u>

See the notes accompanying the financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Definition of the Reporting Entity

The General Purpose Financial Statements present information on the financial activities of the State of California (State) over which the Governor, the State Legislature, and other elected officials have direct or indirect governing and fiscal control. The financial statements include accounts of various boards, commissions, agencies, authorities, retirement systems, the workers' compensation insurance fund, and the state universities.

### 2. Summary of Significant Accounting Policies

#### A. Basis of Presentation

The accompanying financial statements present the financial position and the results of operations of the State for the year ended June 30, 1986. Except for the University of California, as explained below, the financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board, by the American Institute of Certified Public Accountants, and by the Financial Accounting Standards Board. The financial statements of the University of California have been prepared in conformity with generally accepted accounting principles as prescribed by the National Association of College and University Business Officers and by the American Institute of Certified Public Accountants.

The University of California receives an annual appropriation from the General Fund of the State. For the year ended June 30, 1986, approximately \$1.6 billion was accrued or disbursed from the General Fund to the University of California. This amount is recorded as revenues and expenditures in both the General Fund and the University of California Funds and is reported as such in the accompanying financial statements. Thus, these revenues and expenditures are reported twice.

Included in the State's General Purpose Financial Statements are the financial statements of the State Compensation Insurance Fund as of and for the year ended December 31, 1985. The State Compensation Insurance Fund represents 12.2 percent and 22.2 percent, respectively, of the assets and revenues of the Enterprise Funds.

#### B. Fund Accounting

The financial activities of the State accounted for in the accompanying financial statements have been classified as follows:



### Governmental Fund Types

The governmental fund types are used primarily to account for services provided to the general public without charging directly for those services. The State has three governmental fund types:

The General Fund is the main operating fund of the State. It accounts for transactions related to resources obtained and used for those services that do not need to be accounted for in another fund.

Special Revenue Funds account for transactions related to resources obtained from dedicated revenue sources (other than for expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes.

Capital Projects Funds account for transactions related to resources obtained and used to acquire or construct major capital facilities.

### Proprietary Fund Types

The proprietary fund types present financial data on state activities that are similar to those found in the private sector. Users are charged for the goods or services provided. The proprietary fund types are as follows:

Enterprise Funds account for goods or services provided to the general public on a continuing basis either where the State intends that all or most of the cost involved are to be financed by user charges or where periodic measurement of the results of operations is appropriate for management control, accountability, or other purposes.

Internal Service Funds account for goods or services provided to other funds, agencies, departments, or governments on a cost-reimbursement basis.

### Fiduciary Fund Types

The fiduciary fund types are used to account for assets held by the State either as a trustee or as an agent for individuals, private organizations, other governments, or other funds. The fiduciary fund types are as follows:

Expendable Trust Funds account for assets held in a trustee capacity where both principal and income may be expended in the course of a fund's designated operations.

Pension Trust Funds account for transactions, assets, liabilities, and net assets available for plan benefits of the retirement systems.

Agency Funds account for assets held by the State as an agent for individuals, private organizations, other governments, or other funds. They are custodial in nature and do not measure the results of operations.

#### General Long-Term Obligations Account Group

This account group records unmatured general obligation bonds and other long-term obligations generally expected to be financed from governmental funds.

#### University of California

The University of California uses the following types of funds to account for its activities:

Current Funds account for unrestricted funds that are expendable in pursuing the objectives of the University of California, over which the Regents of the University of California (Regents) retain control, and for externally restricted funds that may be used only in accordance with specified purposes.

Loan Funds account for resources available primarily for loans to students. In addition, certain resources are also available for loans to faculty and staff.

Endowment and Similar Funds--Endowment funds are invested in perpetuity, and the income is used in accordance with restrictions imposed by donors. Funds functioning as endowments are established by the Regents, and both principal and income may be expended.

Plant Funds account for resources available to acquire properties, to service the debt related to properties, to provide for the renewal and replacement of properties, and to account for funds invested in properties. Fixed assets of major laboratories of the U.S. Department of Energy are federally owned and are not included in the plant funds.

Retirement System Funds account for assets and liabilities of the University of California Retirement System. Certain employees of the University of California are members of the Public Employees' Retirement System.

#### C. Basis of Accounting

##### Governmental Fund Types, Expendable Trust Funds, and Agency Funds

The accounts of these fund types are reported using the modified accrual basis of accounting. Under the modified accrual basis, revenues are recorded as they become measurable

and available, and expenditures are recorded at the time the liabilities are incurred. The State's accounting practices include an exception to the modified accrual basis of accounting for vacation leave expenditures. These expenditures are recorded when paid because there is no satisfactory basis for determining the current liability. However, the liability for earned vacation of academic year faculty of the California State University and the special schools of the State Department of Education is accrued at June 30, as explained in Note 10.

Other accounting practices of the State include the recording of inventory items as expenditures when the items are purchased and the use of encumbrance accounting for budgetary control purposes. On the financial statements prepared in accordance with generally accepted accounting principles, encumbrances are shown as a reservation of fund balance.

#### Proprietary Fund Types and Pension Trust Funds

The accounts of these fund types are reported using the accrual basis of accounting except that vacation compensation is sometimes expensed when leave is taken. The amount of compensation representing such unused vacation time is not material and, therefore, is not always reported in the financial statements.

#### University of California

The University of California funds are accounted for on the accrual basis of accounting. Accrued compensated absences and other immaterial accruals and deferrals are omitted.

### D. Fixed Assets

#### General Fixed Assets Account Group

The General Fixed Assets Account Group is not presented on the Combined Balance Sheet.

#### Proprietary Fund Types

Fixed assets, consisting of property, plant, and equipment, are stated either at cost or at fair market value at the date of acquisition, less accumulated depreciation. (See Note 9 for detail.) Water projects, which represent 66.7 percent of the depreciable fixed assets of the Proprietary Funds, are depreciated over their service lives ranging from 30 to 100 years. Toll bridge facilities, which represent 18.2 percent of the depreciable fixed assets of the Proprietary Funds, are not depreciated. Most of the remaining assets are depreciated over their estimated service lives using the straight-line method of depreciation.

## University of California

Plant and equipment assets are recorded at cost, if purchased. They are recorded at fair market value at the date of acquisition, if donated. The fixed assets of the plant funds are not depreciated.

### E. Budgetary Accounting

The State's annual budget is prepared on a modified accrual basis. The Governor recommends a budget for approval by the Legislature each fiscal year. Under California law, the State cannot adopt a spending plan that exceeds anticipated revenues.

Under the State Constitution, money may be drawn from the Treasury only through a legal appropriation. The appropriations contained in the Budget Act, as approved by the Legislature and signed by the Governor, are the primary sources of annual expenditure authorizations. The budget can be amended throughout the year by special legislative appropriations, budget revisions, or executive orders. Amendments to the initial budget for fiscal year 1985-86 were legally made, and they are included in the budget data in the accompanying financial statements.

Appropriations are generally available for expenditure or encumbrance either in the fiscal year appropriated or for a period of three years if the legislation does not specify a period of availability. Some appropriations continue indefinitely and are available until fully spent. Generally, encumbrances must be liquidated within two years from the end of the period of availability of the appropriation. If the encumbrances are not liquidated within this additional two-year period, the spending authority for these encumbrances lapses.

State agencies are responsible for exercising budgetary control and ensuring that appropriations are not overspent. In addition, the State Controller controls appropriations and will not disburse funds in excess of an appropriation.

### 3. Legal (Budgetary) Basis Financial Statements

#### A. Budgeted Revenues

In the annual budgeting process, the Governor estimates revenues. However, revenues are not included in the budget adopted by the Legislature.

## B. Reconciliation of Legal Basis to GAAP Basis

The State of California annually reports the State's financial condition based on generally accepted accounting principles and also based on the State's legal provisions (legal basis). The State of California Annual Report (the legal basis financial report) is prepared in accordance with legal and regulatory requirements and is used for reporting on the execution of the State's budget. The accounting records of state agencies are maintained on the legal basis for the primary purpose of maintaining accountability of the State's budget and other fiscal legislation; these records are used as the basis for audit. After the legal basis report is prepared, adjustments are made to prepare the GAAP basis financial statements.

The accompanying Combined Statement of Revenues, Expenditures, and Changes in Fund Balances -- Budget and Actual (Legal Basis) is compiled on the legal basis. This statement is reconciled to the General Purpose Financial Statements prepared in accordance with generally accepted accounting principles as shown below. The primary differences between the legal basis accounting practices and generally accepted accounting principles are as follows:

### Encumbrances

Encumbrances--goods and services that are ordered but not received by the end of the year--are recorded as expenditures on the legal basis. On the GAAP basis, they are reported as a reservation of fund balance, reduced to reflect anticipated reimbursements.

### Accrued Expenditures of the California Medical Assistance Program

California Medical Assistance Program expenditures are, by law, accounted for on a cash basis. They are reported on the accrual basis in accordance with generally accepted accounting principles.

### Advances and Loans Receivable

Loans made to other funds or to other governments are recorded as expenditures on the legal basis. However, in accordance with generally accepted accounting principles, these loans are recorded as assets.

### Liability for Tax Overpayments

A liability for tax overpayments is not recognized on the legal basis. It is accrued in accordance with generally accepted accounting principles.

### Liability for Compensated Absences

A liability for compensated absences is not recognized on the legal basis. As discussed in Note 10, the liability for earned vacation of faculty of the California State University and of the special schools of the State Department of Education is accrued in the General Fund in accordance with generally accepted accounting principles.

### Restatement of Fund Balance

The beginning fund balance of the General Fund on the legal basis is adjusted to reflect the difference between the net expenditures and revenues that were accrued the previous June 30 and the amount of actual revenues and net expenditures that were subsequently realized. The beginning fund balance on the GAAP basis is not affected by these adjustments.

### Reclassifications and Miscellaneous

Certain reclassifications are necessary to present the financial statements in accordance with generally accepted accounting principles. The major reclassifications are 1) reporting California State University student fees as revenue rather than as reimbursements, 2) reporting health care receipts from other funds as reimbursements rather than as revenue, and 3) not reporting a special account for economic uncertainties as a reservation of fund balance because of the deficit on a GAAP basis. The miscellaneous adjustments relate to liabilities for lawsuits that are not recognized on the legal basis unless money has been appropriated and tax payments under appeal that are recognized as revenue on the legal basis.

STATE OF CALIFORNIA  
GENERAL FUND  
RECONCILIATION OF LEGAL BASIS TO GAAP BASIS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 1986  
(IN THOUSANDS)

ADJUSTMENTS TO THE LEGAL BASIS

	Legal Basis	Encumbrances	Accrued Expenditures of the California Medical Assistance Program	Advances and Loans Receivable	Liability for Tax Overpayments	Liability for Compensated Absences	Restatement of Fund Balance	Reclassifications and Miscellaneous	GAAP Basis
<b>ASSETS</b>									
Cash and pooled investments	\$ 722,824							\$ (8,812)	\$ 722,824
Receivables (net)	98,566							25,757	89,754
Due from other funds	1,114,458							(7,780)	1,140,215
Due from other governments	15,011							6,200	7,231
Prepaid expenses	105,534								111,734
Other assets	437								437
Advances and loans receivable	6,200			\$326,258				(6,200)	326,258
Total Assets	\$ 2,063,030	\$ 0	\$ 0	\$326,258	\$ 0	\$ 0	\$ 0	\$ 9,165	\$ 2,398,453
<b>LIABILITIES AND FUND EQUITY</b>									
<b>Liabilities</b>									
Accounts payable	\$ 737,750	\$ (313,628)						\$ (48,546)	\$ 375,576
Due to other funds	230,284	(110,610)	\$ 484,595					6,882	611,151
Due to other governments	294,712	(12,242)			\$ 60,335			91,789	374,259
Tax overpayments	15								15
Deposits									60,335
Compensated absences payable						\$ 68,639		91,233	68,639
Advance collections	35,353								126,586
Interest payable	55,794								55,794
Other liabilities	22,844							(88)	22,756
Total Liabilities	1,376,752	(436,480)	484,595		60,335	68,639		141,270	1,695,111
<b>Fund Equity</b>									
Fund balances		436,480							436,480
Reserved for encumbrances				\$326,258				(443,158)	326,258
Reserved for advances and loans									
Special fund for economic uncertainties	443,158								
Unreserved									
Designated for subsequent years' expenditures	243,120		(484,595)		(60,335)	(68,639)		311,053	243,120
Undesignated (deficit)			(484,595)		(60,335)	(68,639)		(132,105)	(302,516)
Total Fund Equity	686,278	436,480		326,258					703,342
Total Liabilities and Fund Equity	\$ 2,063,030	\$ 0	\$ 0	\$326,258	\$ 0	\$ 0	\$ 0	\$ 9,165	\$ 2,398,453

# REVENUES

Taxes	\$26,974,162			\$ 22,671	\$ (8,931)	\$ (81,647)	\$26,906,255
Intergovernmental						31,904	31,904
Licenses and permits	12,444					124,177	124,177
Natural resources	18,935					18,935	18,935
Charges for services	86,396					(1,706)	84,690
Fees	64,957					242,244	307,201
Penalties	7,032					210	7,242
Interest	529,824						530,453
Miscellaneous	485,686					(420,378)	65,308
Total Revenues	28,179,436			22,671	(8,931)	(117,640)	28,076,165

# EXPENDITURES

Current							
General government	1,283,855		(1,800)		(247)	32,058	1,296,279
Education	15,045,225		89,662	\$ 1,010	(12,553)	242,225	15,340,872
Health and welfare	9,000,856	\$ 89,215	(653)		(42,203)	(459,504)	8,572,630
Resources	466,022				1,990	363	427,259
State & consumer services	225,298				(784)	223,186	223,186
Business & transportation	66,777				64	66,414	66,414
Correctional programs	1,294,806		(12,095)		(6,399)	1,213,349	1,213,349
Property tax relief	918,059				3,896	925,750	925,750
Capital outlay	66,872					66,872	66,872
Debt service							
Principal retirement	231,185		(1,371)			1,867	233,052
Interest & fiscal charges	212,700					561	211,890
Total Expenditures	28,811,655	89,215	73,743	1,010	(56,236)	(182,430)	28,577,553

# OTHER FINANCING SOURCES (Uses)

Operating transfers in	47,392		(5,805)			15,478	57,065
Operating transfers out	(212,002)		2,210			3,117	(206,675)
Other additions	35,591					(35,591)	
Total Other Financing Sources (Uses)	(129,019)		(3,595)			(16,996)	(149,610)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(761,238)	(89,215)	(76,709)	(1,010)	47,305	47,794	(650,998)
Fund Balance July 1, 1985, as restated	1,447,516	(395,380)	402,967	(67,629)	(47,305)	(179,899)	1,354,340
Fund Balance, June 30, 1986	\$ 686,278	\$ (484,595)	\$326,258	\$ (60,335)	\$ 0	\$ (132,105)	\$ 703,342



STATE OF CALIFORNIA  
SPECIAL REVENUE FUND RECONCILIATION  
OF LEGAL BASIS TO GAAP BASIS  
AS OF JUNE 30, 1986  
(IN THOUSANDS)

Fund Balances, June 30, 1986 - Legal Basis	\$1,491,322
Encumbrances	972,146
Advances or loans to other funds	459,025
Grants for county jail construction	70,393
Commitments for future mass transportation projects	4,544
Deposits for condemnation proceedings	68,250
Other	<u>62,561</u>
Fund Balances, June 30, 1986 - GAAP Basis	<u><u>\$3,128,241</u></u>

#### 4. Restatement of Retained Earnings at July 1, 1985

##### Enterprise Fund Type

In order to properly match the recognition of revenues from power sales billings and depreciation expense with related capital expenditure recovery provisions of the water supply contracts for 1983 and prior years, the Department of Water Resources made prior period adjustments that reduced the retained earnings balance of its enterprise funds by \$557 million at July 1, 1985. The adjustments were made to reflect changes made by the independent auditors of the enterprise funds administered by the Department of Water Resources.

The fund type classification of one fund was changed from internal service fund to enterprise fund to reflect a change in the users of the goods and services that the fund provides. As a result, the retained earnings balance at July 1, 1985, increased by \$6.5 million in the enterprise fund type and decreased by a corresponding amount in the internal service fund type.

##### Internal Service Fund Type

In order to properly account for the reclassification of one fund from internal service fund type to enterprise fund type and for errors in the depreciation records of several funds, the State made prior period adjustments that decreased the retained earnings balance of the internal service fund type at July 1, 1985, by a net amount of \$25 million.

#### 5. Cash and Pooled Investments

The State Treasurer and the Treasurer of the Regents of the University of California each administers a pooled money investment program. These programs enable the treasurers to combine available cash from all funds within their respective systems and to invest cash that exceeds current needs.

The cash and pooled investments account includes cash on hand, cash deposited with banks, and securities consisting primarily of certificates of deposit, commercial paper, United States government issues, and federal agency obligations. Included in this account are securities that the State Treasurer sold or purchased under agreements to repurchase or resell the securities at later dates.

The State Treasurer has agreements to maintain cash on deposit with certain banks that does not bear interest income to the State. Income earned on these deposits compensates the banks for services and uncleared checks that are deposited in the State's accounts. At June 30, 1986, the agreements provided that the

State maintain approximately \$67 million on deposit to compensate the banks for services and \$177 million to compensate the banks for uncleared checks.

As of June 30, 1986, the average remaining life of the securities in the pooled money investment program administered by the State Treasurer was approximately fifteen months. These securities are reported at amortized cost. The average remaining life of the securities in the pooled money investment program administered by the Treasurer of the Regents of the University of California was less than one year. These securities are reported at cost. Market values for the State Treasurer's portfolio and the University of California's portfolio approximate book values at June 30, 1986.

#### 6. Investments

The following schedule shows the amortized cost and market value of investments, other than pooled investments, for all funds. Totals are those reported at June 30, 1986, except for the State Compensation Insurance Fund, which is reported as of December 31, 1985 (in thousands):

	<u>Amortized Cost</u>	<u>Market Value</u>	<u>Balance Sheet Presentation</u>
<u>Enterprise Funds</u>			
State Compensation Insurance Fund	\$ 1,678,180	\$ 1,706,602	\$ 1,678,180
Housing Finance Fund	795,639	832,020	795,639
Other Enterprise Funds	322,623	Unavailable	<u>322,623</u>
Total			<u>\$ 2,796,442</u>
<u>Trust and Agency Funds</u>			
Public Employees' Retirement System	\$30,281,498	\$37,739,862	\$30,281,498
State Teachers' Retirement System	16,747,648	18,846,478	16,747,648
Legislators' Retirement System	47,994	57,979	47,994
Judges' Retirement System	2,365	2,365	2,365
Deferred Compensation Fund	603,898	646,972	646,972
Other Trust and Agency Funds	36,253	Unavailable	<u>36,253</u>
Total			<u>\$47,762,730</u>
<u>University of California</u>			
Endowment and Similar Funds	\$ 433,869	\$ 816,138	\$ 433,869
University of California Retirement System	5,042,733	8,334,380	<u>8,334,380</u>
Total			<u>\$ 8,768,249</u>

7. Restricted Assets

The following schedule presents a summary of the legal restrictions on assets of the Enterprise Funds and the purposes for which the assets were restricted as of June 30, 1986 (in thousands):

<u>Purpose</u>	<u>Cash and Pooled Investments</u>	<u>Investments</u>	<u>Due From Other Funds</u>
Debt service	\$ 426	\$72,707	\$ 845,169
Construction	14		232,746
Equipment repair and replacement			21,850
Deposits	<u>3,875</u>	<u>          </u>	<u>1,182</u>
Total Restricted Assets	<u>\$4,315</u>	<u>\$72,707</u>	<u>\$1,100,947</u>

8. Deferred Charges

The deferred charges account in the Enterprise Fund Type represents operating costs and depreciation that will be recognized as expenses over the remaining life of long-term State Water Project contracts because these costs are billable in future years. In addition, the account includes imputed interest earnings on unrecovered capital and operating costs that are recorded as deferred charges until they are billed in future years under the terms of the State Water Project contracts.

## 9. Fixed Assets

The following schedule presents a summary of the fixed assets of the Proprietary Fund Types and the University of California as of June 30, 1986 (in thousands):

	<u>Proprietary Fund Types</u>		<u>University of California</u>
	<u>Enterprise</u>	<u>Internal Service</u>	
State water projects	\$2,897,003		
Toll facilities	650,062		
Other land, improvements, buildings, and equipment	452,631	\$189,909	\$4,796,574
Construction in progress	<u>282,030</u>	<u>          </u>	<u>164,683</u>
Total Fixed Assets	4,281,726	189,909	4,961,257
Less accumulated depreciation	<u>524,988</u>	<u>87,324</u>	<u>          </u>
Net Fixed Assets	<u>\$3,756,738</u>	<u>\$102,585</u>	<u>\$4,961,257</u>

## 10. Compensated Absences Payable

As of June 30, 1986, the State's liability for compensated absences related to accumulated vacation leave amounted to approximately \$439 million. Of this amount, \$359 million is reported in the General Long-Term Obligations Account Group, \$11 million is reported in the Proprietary Fund Types, and \$69 million for earned vacation compensation of academic year faculty of the California State University and of the special schools of the State Department of Education is recorded as a current liability in the General Fund. Accumulated sick leave balances do not vest to employees. However, unused sick leave balances convert to service credits upon retirement.

## 11. General Obligation Bonds

The State Constitution permits the State to issue general obligation bonds for specific purposes and in such amounts as approved by two-thirds of both houses of the Legislature and by a majority of voters in a general or direct primary election. The debt service for general obligation bonds is appropriated from the General Fund. Under the State Constitution, the General Fund is used first to support the public school system and public institutions of higher education and second to service the debt on outstanding general obligation bonds. Enterprise funds reimburse the General Fund for the debt service provided on their behalf. In 1969, the City and County of San Francisco also agreed to reimburse the State for debt service on certain general obligation bonds for harbor development and improvement.

### A. Changes in Bond Indebtedness

The following schedule summarizes the changes in general obligation bond debt for the year ended June 30, 1986 (in thousands):

	<u>Balance July 1, 1985</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 1986</u>
General Long-Term Obligations	\$2,771,642	\$ 850,000	\$233,052	\$3,388,590
Enterprise Funds	<u>4,808,455</u>	<u>390,000</u>	<u>263,320</u>	<u>4,935,135</u>
Total General Obligation Bonds	<u>\$7,580,097</u>	<u>\$1,240,000</u>	<u>\$496,372</u>	<u>\$8,323,725</u>

General obligation bonds that are directly related to and expected to be paid from the resources of enterprise funds are included within the accounts of such funds in the accompanying financial statements. However, the General Fund may be liable for the payment of any principal and interest on these bonds that is not met from the resources of such funds.

B. Bonds Outstanding and Bonds Authorized But Unissued

The following schedule shows general obligation bonds outstanding and bonds authorized but unissued as of June 30, 1986 (in thousands):

	<u>Outstanding</u>	<u>Authorized But Unissued</u>
<u>General Long-Term Obligations</u>		
New Prison Construction	\$ 755,000	
School Building Lease-Purchase	545,070	\$ 350,000
Clean Water	273,750	330,000
Clean Water and Water Conservation	273,390	45,000
State Parklands	198,125	45,000
State Construction	193,050	
State Beach, Park, Recreational and Historical Facilities	176,815	
State, Urban, and Coastal Park	174,815	25,000
County Jail Capital Expenditure	164,150	355,000
Safe Drinking Water	163,690	70,000
Park and Recreational Facilities	93,750	275,000
Health Science Facilities	81,790	
Community College Construction	71,250	
Higher Education Construction	59,950	
Senior Center	50,000	
Lake Tahoe Acquisitions	29,500	55,000
Fish and Wildlife Habitat Enhancement	29,000	55,000
Recreation and Fish and Wildlife Enhancement	24,000	
Junior College Construction	16,700	
Harbor Development	14,795	
County Correctional Facility		495,000
Water Conservation and Quality		150,000
Community Parklands		100,000
Total General Long-Term Obligations	<u>3,388,590</u>	<u>2,350,000</u>
<u>Enterprise Funds</u>		
California Veterans	2,986,005	850,000
Water Resource Development	1,389,210	180,000
State School Building Aid	494,720	40,000
Hazardous Substance Cleanup	50,000	50,000
First-Time Home Buyers	15,000	185,000
Harbor Development	200	
Total Enterprise Funds	<u>4,935,135</u>	<u>1,305,000</u>
Total General Obligation Bonds	<u>\$8,323,725</u>	<u>\$3,655,000</u>

C. Debt Service Requirements

The following schedule shows the debt service requirements for general obligation bonds, including interest of \$6.1 billion, as of June 30, 1986 (in thousands):

<u>Year Ending June 30</u>	<u>General Long-Term Obligations</u>	<u>Enterprise Funds</u>
1987	\$ 515,469	\$ 579,676
1988	489,885	538,365
1989	458,218	519,386
1990	432,510	494,148
1991	414,679	474,873
Thereafter	<u>3,167,413</u>	<u>6,306,140</u>
Total	<u>\$5,478,174</u>	<u>\$8,912,588</u>

12. Revenue Bonds and Notes Payable

With approval in advance from the Legislature, certain state agencies may issue revenue bonds. Principal and interest on revenue bonds are payable from the earnings of the respective enterprise funds of the agencies listed in Section B of this footnote or from resources of certain Plant Funds or Loan Funds of the University of California. The General Fund has no legal liability for payment of principal and interest on revenue bonds.

The Department of Water Resources, the California State University, the California Transportation Commission, the State Public Works Board, and the University of California issued revenue bonds to acquire or construct state facilities. The California Housing Finance Agency, the Department of Veterans Affairs, the California National Guard, and the California Student Loan Authority issued revenue bonds to allow the State to make loans to finance housing development, to finance the acquisition of farms and homes by California veterans and National Guard members, and to purchase federally insured student loans from lending institutions. When the farm and home loans financed by the revenue bonds are fully paid, the farms and homes become the property of private individuals or entities.



A. Changes in Bond Indebtedness

The following schedule summarizes the changes in revenue bond debt for the year ended June 30, 1986 (in thousands):

	Balance July 1, 1985	Additions	Deductions	Balance June 30, 1986
Enterprise Funds	\$4,363,077	\$1,213,384	\$399,989	\$5,176,472
University of California	<u>202,380</u>	<u>122,939</u>	<u>16,519</u>	<u>308,800</u>
Total Revenue Bonds	<u>\$4,565,457</u>	<u>\$1,336,323</u>	<u>\$416,508</u>	<u>\$5,485,272</u>

B. Revenue Bonds Outstanding

The following schedule shows revenue bonds outstanding as of June 30, 1986 (in thousands):

	<u>Outstanding</u>
<u>Enterprise Funds</u>	
California Housing Finance Agency	\$2,501,533
Department of Water Resources	1,036,810
Department of Veterans Affairs	861,595
State Public Works Board	340,288
California State University	203,043
California Student Loan Authority	110,255
California Transportation Commission	91,699
California National Guard	<u>31,249</u>
Total Enterprise Funds	5,176,472
<u>University of California</u>	
Regents of the University of California	<u>308,800</u>
Total Revenue Bonds	<u>\$5,485,272</u>

Outstanding revenue bonds totaling \$7 million for Hastings College of the Law are not included in the accompanying financial statements.

C. Debt Service Requirements

The following schedule shows the debt service requirements for revenue bonds, including interest of \$9.6 billion, as of June 30, 1986 (in thousands):

<u>Year Ending June 30</u>	<u>Enterprise Funds</u>	<u>University of California</u>
1987	\$ 546,659	\$ 26,466
1988	556,325	26,643
1989	563,868	27,110
1990	563,199	26,753
1991	550,087	26,721
Thereafter	<u>11,584,980</u>	<u>582,266</u>
Total	<u>\$14,365,118</u>	<u>\$715,959</u>

D. Notes Payable

Certain state agencies issued short-term notes, secured by specific revenue sources, to provide temporary financing. The following schedule shows outstanding notes payable as of June 30, 1986 (in thousands):

	<u>Outstanding</u>
<u>Enterprise Funds</u>	
State Public Works Board	\$114,309
Department of Health Services	<u>145</u>
Total Notes Payable	<u>\$114,454</u>

E. Early Extinguishments of Debt

During the year ended June 30, 1986, the Department of Water Resources issued \$206.7 million of Central Valley Project Revenue Bonds - Series H, and used \$183.5 million of the proceeds to satisfy a debt of \$163.7 million for Series C and D bonds. The department invested the \$183.5 million in United States government securities and placed the securities in irrevocable escrow with the State Treasurer. The investment and interest will be sufficient to redeem the Series C and D bonds through December 1992.

During April 1985, the Department of Water Resources issued \$239.5 million of Central Valley Project Facilities Revenue Bonds - Series G and used \$234.6 million of the proceeds to satisfy a debt of \$200 million for Series B revenue bonds.

The department invested the \$234.6 million in United States government securities and placed the securities in irrevocable escrow with the State Treasurer. The investment and interest will be sufficient to redeem the Series B revenue bonds through December 1, 1992, when the bond principal for the remaining ten years will also be retired. The first principal payment of \$1.2 million was paid in December 1985.

Since the escrow arrangements effectively release the Department of Water Resources from its obligations for the \$163.7 million and the remaining \$198.8 million of the \$200 million, the liability for the bonds is not included on the combined balance sheet, nor are the related investments.

13. No-Commitment Debt

The Legislature created various authorities to provide private entities with a low-cost source of capital financing for constructing facilities deemed to be in the public interest. This debt is secured solely by the credit of the private entities and is administered by trustees independent of the State. The State has no obligation for this debt. Accordingly, these bonds are not reported in the accompanying financial statements.

The following schedule shows no-commitment bonds outstanding as of June 30, 1986 (in thousands):

	<u>Outstanding</u>
Health Facilities	\$2,925,543
Pollution Control	2,317,082
Educational Facilities	691,918
Alternate Energy Source	<u>103,868</u>
Total No-Commitment Debt	<u>\$6,038,411</u>

14. Commitments

A. Leases

The aggregate amount of lease commitments for facilities and equipment, excluding those of the University of California, in effect as of June 30, 1986, is approximately \$1.4 billion. This amount does not include any future escalation charges for real estate taxes and operating expenses. Most state leases are classified as operating leases, and they contain clauses providing for termination. It is expected that in the normal course of business most of these leases will be replaced by similar leases.

The State has also entered into some lease-purchase agreements to acquire office buildings and electronic data processing

equipment. The acquisition or development of the office buildings is financed by joint powers authorities, nonprofit corporations, and private corporations who then lease the facilities to the State. Upon expiration of these leases, title to the facilities and equipment will pass to the State.

Certain state educational and correctional institutions have entered into lease-purchase agreements with the State Public Works Board amounting to a present value of net minimum lease payments of \$251 million. These lease payments will be used to satisfy the principal and interest requirements of revenue bonds issued by the State Public Works Board to finance the construction of facilities for these institutions. Upon expiration of these leases, jurisdiction of the educational and correctional facilities will pass from the State Public Works Board to the state educational and correctional institutions.

The minimum lease commitments are summarized below (in thousands):

<u>Year Ending June 30</u>	<u>Operating Leases</u>	<u>Capital Leases</u>	<u>Total</u>
1987	\$127,295	\$ 36,186	\$ 163,481
1988	98,526	35,534	134,060
1989	70,743	45,896	116,639
1990	50,162	46,798	96,960
1991	40,726	46,502	87,228
Thereafter	<u>135,328</u>	<u>630,211</u>	<u>765,539</u>
Total Minimum Lease Payment	<u>\$522,780</u>	<u>841,127</u>	<u>\$1,363,907</u>
Less amounts representing interest		<u>432,731</u>	
Present Value of Net Minimum Lease Payment		<u>\$408,396</u>	

Lease expenditures for the year ended June 30, 1986, amounted to approximately \$171 million.

University of California rental expenditures for the years ended June 30, 1986 and 1985, totaled \$35 million and \$32 million, respectively. Minimum payments required under capital and noncancelable operating leases in fiscal year 1986-87 are \$11.5 million and decrease in amount thereafter.

## B. Loan and Construction

As of June 30, 1986, loan programs for housing, school building aid, harbors and waterways, domestic water supply systems, energy conservation, and economic development had loan commitments totaling approximately \$1.2 billion. These commitments are expected to be funded from existing program resources and from the proceeds of revenue and general obligation bonds to be issued. The State had commitments for approximately \$95 million for the construction of water projects and the construction and rehabilitation of toll bridge facilities. Construction projects of the University of California, totaling \$148 million, had been authorized as of June 30, 1986. Of this amount, \$63 million will be funded from unexpended plant funds and \$85 million from other sources. These loan and construction commitments are not included in the accompanying financial statements.

## C. Encumbrances

At June 30, 1986, encumbrances of the Special Revenue Funds totaled \$972 million. This amount does not include commitments of \$1.57 billion for various highway and county jail construction projects. The commitments for highway projects in the amount of \$1.4 billion are excluded because the future expenditures related to these commitments are expected to be reimbursed primarily from proceeds of approved federal grants. The ultimate liability will not accrue to the State. The commitments for county jail projects in the amount of \$170 million are excluded because the additional money to fully fund these commitments will be obtained from the future sale of general obligation bonds.

## D. New Prison Construction

Sections 7104 and 7204 of the Penal Code authorize the issuance of \$795 million for new prison construction general obligation bonds to finance the State's new prison construction program. In addition, the Government Code, Sections 15819.3 and 15819.20, authorizes the use of lease purchase financing arrangements and the issuance of lease revenue bonds of \$975 million to finance new prison construction. In November 1986, the electorate also approved the sale of an additional \$500 million in general obligation bonds to finance the new prison construction program as authorized by the Penal Code, Section 7304.

As of June 30, 1986, the State had issued the \$795 million of general obligation bonds as authorized by the Penal Code. Of this amount, \$406 million had been spent, \$215 million was encumbered, and \$174 million was designated for subsequent years' expenditures. As of June 30, 1986, the State Public Works Board had also issued \$267 million of the \$975 million of lease revenue bonds authorized by the Government Code.

E. County Jail Construction

Sections 4414, 4464, and 4484 of the Penal Code authorize the issuance of \$1.025 billion for county jail construction general obligation bonds to finance the county jail construction program.

As of June 30, 1986, the State had issued \$175 million of the general obligation bonds and received income of approximately \$34 million. Of the \$209 million available from the sale of general obligation bonds and income received, \$93 million has been spent, \$46 million was reported as encumbrances, and \$70 million is designated for subsequent years' expenditures.

15. Major Tax Revenues

Tax revenues for the year ended June 30, 1986, are as follows (in thousands):

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Expendable Trust Funds</u>
Sales and use	\$10,202,041	\$713,703	
Personal income	11,410,088		
Bank and corporation	3,867,576		
Unemployment insurance			\$1,967,434
Disability insurance			1,112,234
Other	<u>1,426,550</u>	<u>127,031</u>	<u>72,156</u>
Total	<u>\$26,906,255</u>	<u>\$840,734</u>	<u>\$3,151,824</u>

16. Pension Trusts

A. General

The State administers five defined benefit contributory retirement plans: the Public Employees' Retirement System, the State Teachers' Retirement System, the University of California Retirement System, the Judges' Retirement System, and the Legislators' Retirement System. The schedule below shows the number of members in each of the retirement plans as of June 30, 1986:

	<u>State</u>	<u>Other</u>	<u>Benefit Recipients</u>	<u>Total</u>
Public				
Employees'	192,000	367,000	212,000	771,000
State Teachers'	124	304,876	107,000	412,000
University of California	82,711		10,500	93,211
Judges'	163	1,207	840	2,210
Legislators'	170		210	380

These retirement systems are accounted for in separate funds. Except for the Legislators' Retirement System and the University of California Retirement System, these are statewide, multi-employer retirement plans. The following schedule presents a summary of the annual contributions to the retirement systems by the State, public agencies, and members for fiscal year 1985-86 (in thousands):

	<u>State</u>	<u>Public Agencies</u>	<u>Members</u>	<u>Total Contri- butions</u>
Public				
Employees'	\$927,050	\$1,008,530	\$684,835	\$2,620,415
State Teachers'	358,595	657,190	637,311	1,653,096
University of California	276,340		153,160	429,500
Judges'	22,977	3,737	7,751	34,465
Legislators'	820		341	1,161

The assets and liabilities of the University of California Retirement System are reported as part of the University of California within the General Purpose Financial Statements. The other four systems are reported within the Fiduciary Fund Type.

#### B. Unfunded Actuarial Liability

Independent actuaries evaluate the adequacy of the financing of the five retirement systems. The contributions reported for the Public Employees' and the University of California retirement systems include amortization of the unfunded actuarial liability over a period not to exceed 30 years. The long-term financing requirements of the other three systems are significantly greater than the contributions provided in state law. The following schedule shows the unfunded actuarial liability for the Public Employees', State Teachers', University of California, Judges', and the Legislators' retirement systems at the dates indicated (in millions):

	<u>Date of Last Actuarial Valuation</u>	<u>State Share of Unfunded Actuarial Liability</u>	<u>Total Unfunded Actuarial Liability</u>
Public Employees'	6/30/85	\$6,589	\$11,700
State Teachers'	6/30/85	Unknown	10,945
University of California	6/30/85	876	876
Judges'	6/30/84	Unknown	620
Legislators'	6/30/84	20	20

The Education Code requires the State to provide supplemental funding to the State Teachers' Retirement System in order to reduce that system's unfunded actuarial liability. This code requires that, beginning July 1, 1980, annual state contributions of \$144 million to the State Teachers' Retirement System be increased or decreased to reflect changes in the California Consumer Price Index. For the 1985-86 fiscal year, the \$144 million increased to \$226 million because of changes in the California Consumer Price Index. Further, the State made an additional contribution of \$100 million for fiscal year 1985-86. The Education Code provides for additional annual contributions as follows:

<u>Fiscal Year</u>	<u>Amount</u>	<u>Fiscal Year</u>	<u>Amount</u>
1986-87	\$120 million	1991-92	\$220 million
1987-88	140 million	1992-93	240 million
1988-89	160 million	1993-94	260 million
1989-90	180 million	1994-95	280 million*
1990-91	200 million	Thereafter	280 million

\*Beginning in fiscal year 1994-95, the additional annual contributions of \$280 million must be indexed to the California Consumer Price Index.

Pension expenses related to the University of California Retirement System were \$276.4 million for fiscal year 1985-86. In 1983, the State deferred the employer contribution appropriation to the University of California. The State agreed to pay the amount deferred in actuarially equivalent annual installments over the next 30 years. The outstanding amount of \$65.2 million is reported as a receivable in the Current Funds of the University of California and as an interfund receivable and payable between the University of California's Current and Retirement System Funds. However, the State will pay this amount from future years' appropriations. The State's General Fund does not recognize liabilities for amounts to be paid from future years' appropriations.



17. Postretirement Health Care Benefits

In addition to providing pension benefits, the State also provides certain health care benefits for eligible retired employees and their survivors. The cost of retiree health care is recognized as an expenditure when the benefits are paid. The cost of providing these benefits for retirees in fiscal year 1985-86 was \$138.9 million, including \$31 million for the University of California.

18. Deferred Compensation Plan

The State offers its eligible employees a deferred compensation plan in accordance with Internal Revenue Code Section 457. Eligible employees may defer receiving portions of their salaries, thereby deferring taxation on those portions, until they separate from state service or face a serious financial emergency. The participants direct the plan administrator, the State, to invest the deferred amounts among nine investment options. The cost of administration and all funding are the responsibility of those participating in the plans. The State makes no contribution to the plan. However, the money in the plan is available for payment to the State's general creditors where permitted by the Legislature.

As of June 30, 1986, the total market value of assets in the deferred compensation plan was approximately \$655 million. Of this amount, \$647 million is reported in investments, \$8 million in due from other funds, and the corresponding liability of \$655 million is included in deposits. The assets and the liability are reported in an agency fund.

19. Guaranty Deposits

The State is custodian of guaranty deposits held to protect consumers, to secure the State's deposits in financial institutions, and to assure payment of taxes and fulfillment of obligations to the State. Guaranty deposits of securities and other properties are not shown on the financial statements.

20. Segment Information - Enterprise Funds

Selected financial information by enterprise fund activity for major segments is shown in the schedule on the following page.

**ENTERPRISE FUND ACTIVITY  
BY MAJOR SEGMENTS  
(IN THOUSANDS)**

	Housing Loan	Water	State Compensation Insurance	Student Loans and School Building Aid	Toll Facilities	State University	Leasing of Public Assets	Lottery	Other Enterprises
Operating Revenue	\$ 530,861	\$ 389,104	\$ 920,670	\$ 61,260	\$ 75,714	\$ 92,282	\$ 7,599	\$1,765,572	\$ 65,313
Operating Income (Loss)	(113,404)	155,782	230,260	27,571	61,879	13,935	5,053	676,350	(21,090)
Net Income	13,065	29,620	230,260	41,648	61,586	5,101	6,309	692,696	4,933
Property, Plant, and Equipment Additions	14	71,592	12,547	14,409	13,440	19,903	1,965	12,223	1,722
Deductions	6					22,674			
Total Assets	7,453,939	4,148,954	2,082,441	901,638	892,085	475,126	444,897	312,898	404,108
Bonds and Other Long-Term Liabilities	6,523,399	2,854,463		873,155	113,998	203,043	352,429		154,566
Total Equity	587,113	714,324	505,712	21,096	768,655	228,941	79,745		204,200

The primary sources of Enterprise Fund revenues are as follows:

Housing Loan - Interest charged on contracts of sale of properties to California veterans and to California National Guard members, interest charged on program loans to finance the housing needs of persons and families of low and moderate income, loan origination fees, and interest earned on investments.

Water - Charges to local water districts, sale of excess power to public utilities, and interest earned on investments.

State Compensation Insurance - Premiums collected from California employers for insurance against workers' compensation claims and interest earned on investments. This information is as of and for the year ended December 31, 1985.

Student Loans and School Building Aid - Interest charged on loans to school districts for acquisition, construction, or rehabilitation of classroom facilities, income from the rental of portable classrooms to school districts, and interest charged on loans to students.

Toll Facilities - Toll fees and interest earned on investments.

State University - Charges to students for housing and parking; student fees for campus unions, health centers, and self-supporting educational programs; and interest earned on investments.

Leasing of Public Assets - Rental charges from the lease of public assets and interest earned on investments.

Lottery - Sale of lottery tickets.

Other Enterprises - Gasoline taxes and fees related to boating activities, canteen revenues, and processing fees charged by various other departments and authorities.

## 21. Contingencies

### A. Litigation

The State is a party to numerous legal proceedings, many of which normally recur in governmental operations. The following were accrued as a liability in the financial statements: legal proceedings that were decided against the State before June 30, 1986; legal proceedings that were in progress at June 30, 1986, and that were settled or decided against the State as of December 19, 1986; and those legal proceedings having a high probability of resulting in a decision against the State as of December 19, 1986, and for which amounts could be estimated. For Governmental Fund Types and Expendable Trust Funds, the portion of the liability that is expected to be paid within the next 12 months is recorded as a liability of the fund from which payment will be made; the remainder is shown as a liability of the General Long-Term Obligations Account Group. For other fund types, the entire liability is recorded in the fund involved. In addition, the State is involved in certain other legal proceedings that, if decided against the State, may require the State to make significant future expenditures or may impair future revenue sources. Because of the prospective nature of these proceedings, no provision for this potential liability has been made in the accompanying financial statements, nor can an estimate of the potential loss be made.

Following are two of the more significant lawsuits pending against the State:

The State is one of approximately 150 defendants in Penny Newman v. J.B. Stringfellow, in which 4,600 plaintiffs are claiming damages of \$850 million arising from contamination at the Stringfellow toxic waste site. The State is a defendant because it chose the site and approved the deposit of toxic wastes. The potential liability of the State in the event of an adverse outcome of the litigation is unknown.

The State is the defendant in Woosley v. California, a class action suit. The suit alleges overcharges of vehicle license fees and use taxes for out-of-state vehicles that were registered in California from 1975 to 1983. The suit also alleges overcharges of use taxes on all used vehicles registered since 1976. The potential loss from refunds of the vehicle license fees is estimated at \$300 million, and the potential loss from refunds of use taxes is estimated at \$250 million. The case is currently on appeal to a district court of appeal, after an adverse judgement to the State. The State intends to litigate this case to the United States Supreme Court, if necessary.

## B. Federal Audit Exceptions

The State of California receives substantial funding from the federal government in the form of grants and contracts. The State is entitled to these resources only if it complies with the terms and conditions of the grants and contracts and with the applicable federal laws and regulations; the State may spend these resources only for eligible purposes. If audits disclose exceptions, the State may incur a liability to the federal government.

## C. Insurance Program

The State has elected, with a few exceptions, to be self-insured against loss or liability. The State generally does not maintain reserves; losses are covered by appropriations in the year in which the payment occurs. Except for the University of California, workers' compensation benefits for self-insured agencies are initially paid by the State Compensation Insurance Fund. The State Compensation Insurance Fund estimated the liability for future workers' compensation claims against the State's self-insured agencies to be approximately \$326 million as of June 30, 1986. This liability is included in the accompanying financial statements in the General Long-Term Obligations Account Group. The University of California is also self-insured, but it has placed assets with an independent trustee for the payment of workers' compensation. These assets are reported in the accompanying financial statements along with the related liability for future payments.

## 22. California State Lottery

On October 3, 1985, the California State Lottery offered its first lottery tickets to the public. Through June 30, 1986, lottery ticket sales totaled approximately \$1.766 billion. The Lottery Fund also earned interest revenue of \$16 million. Of the total revenues, \$886 million (50 percent) was paid for lottery prizes and \$693 million (39 percent) was distributed for educational purposes. Lottery operating expenses amounted to \$203 million (11 percent).

## 23. Appropriations Limit

The State is subject to an annual appropriations limit imposed by Article XIII B of the California Constitution. The California Constitution establishes a limit on the growth of certain appropriations made from state tax revenues, adjusted annually for inflation and population growth. All tax revenue received must be appropriated or returned to the taxpayers. Any funds not appropriated for specific purposes are appropriated annually to a special account for economic uncertainties in each fund.

The California Constitution imposes no limit on appropriations or funds obtained through nontax sources, such as from reasonable user charges or fees and from bond proceeds. The state appropriations limit is also exclusive of certain appropriations such as state subventions to local governments that are not restricted in their use. State appropriations to local governments without restrictions are considered tax proceeds for local entities, subject to each local entity's revenue and appropriations limit.

The appropriations limit is established each year in the Budget Act and is amended during the fiscal year for transfers of fiscal responsibility between the state and local governments. The Budget Act provides that any judicial action or proceeding to attack, review, set aside, void, or annul the revenue and appropriations limit must begin within 45 days of the effective date of the act. There were no such actions for fiscal year 1985-86.

The Governor reported in the 1987-88 Governor's Budget that the state appropriations limit and appropriations subject to the limit for fiscal year 1985-86 were as follows (in millions):

State appropriations limit	\$22,962
Appropriations subject to limit	<u>22,467</u>
Amount under limit	<u>\$ 495</u>

#### 24. Subsequent Events

In August 1986, the State of California issued \$2.6 billion in revenue anticipation notes to fund the State's cash flow needs for the 1986-87 fiscal year. These notes will mature on June 30, 1987.

From July 1, 1986, to December 19, 1986, the State sold \$250 million in general obligation bonds and \$895 million in revenue bonds.

In addition, the California Housing Finance Agency and the Department of Veterans Affairs had entered into purchase contracts for revenue bond sales in the amount of \$196.7 million and \$300 million, respectively, at December 19, 1986. These bond sales were not finalized until later, and therefore are not included in the preceding paragraph.

In the general election held November 3, 1986, voters approved the sale of \$1.8 billion of general obligation bonds.

On August 1, 1986, the University of California sold \$47 million in parking system revenue bonds. On August 28, 1986, the University sold an additional \$375 million in revenue bonds. On December 18, 1986, the University sold \$111.3 million in hospital revenue bonds.

**STATISTICAL SECTION**

**STATE OF CALIFORNIA**  
**SELECTED TAX REVENUE (LEGAL BASIS) BY SOURCE**  
**COMPARATIVE YIELD OF STATE TAXES**  
**FISCAL YEARS 1976-1986**  
**(IN THOUSANDS)**

Year Ending June 30	Retail Sales and Use	Personal Income	Bank and Corporation*	Cigarette	Inheritance, Estate,** and Gift**	Insurance	Distilled Spirits	Horse Racing Revenues	Beer and Wine	Motor Vehicle Fuel***	Motor Vehicle Fees***
1976	\$ 3,742,524	\$ 3,086,611	\$1,286,515	\$268,610	\$316,648	\$241,224	\$104,697	\$ 96,117	\$20,616	\$ 766,555	\$ 749,935
1977	4,314,201	3,761,356	1,641,500	269,384	367,964	322,476	105,275	102,702	22,210	810,321	807,782
1978	5,030,438	4,667,887	2,082,208	273,658	365,092	387,560	109,088	111,591	22,972	850,181	924,410
1979	5,780,919	4,761,571	2,381,223	268,816	416,955	420,184	114,922	112,856	25,137	896,591	1,021,856
1980	6,623,521	6,506,015	2,510,039	290,043	465,611	446,228	112,757	127,002	26,183	852,752	1,096,640
1981	7,131,429	6,628,694	2,730,624	278,161	530,185	460,926	115,191	129,779	27,669	839,994	1,127,293
1982	7,689,023	7,483,007	2,648,735	276,824	482,300	454,984	111,151	119,626	28,372	833,446	1,373,354
1983	7,795,488	7,701,099	2,536,011	271,621	517,875	736,929	108,519	120,159	27,690	928,633	1,614,993
1984	8,797,865	9,290,279	3,231,281	263,231	236,452	457,490	107,983	141,001	29,450	1,213,167	1,906,290
1985	9,797,564	10,807,706	3,664,593	262,868	296,805	643,139	105,952	133,814	29,834	1,159,637	2,137,326
1986	10,317,930	11,413,040	3,843,024	258,141	252,810	839,939	102,370	131,592	29,892	1,194,172	2,515,295

\*Includes the corporation income tax.

\*\*Proposition 6 of 1982 repealed the inheritance and gift taxes and imposed an estate tax equal to the maximum allowable federal estate tax credit, effective for decedents dying on or after June 9, 1982.

\*\*\*Motor vehicle fuel tax (gasoline) and use fuel tax (diesel and liquified petroleum gas).

\*\*\*Registration and weight fees, motor vehicle license fees, and other fees.

Source: State Controller

**STATE OF CALIFORNIA  
RATIO OF GENERAL LONG-TERM  
BONDED DEBT TO PER CAPITA INCOME  
FISCAL YEARS 1978-1986**

<u>Year Ending June 30</u>	<u>General Long-Term Bonded Debt (In Thousands)</u>	<u>Per Capita Debt</u>	<u>Per Capita Income</u>	<u>Ratio: Per Capita Debt to Per Capita Income</u>
1978	\$1,680,644	\$ 73.59	\$ 9,388	.78%
1979	1,727,920	74.30	10,500	.71
1980	1,755,886	73.84	11,590	.64
1981	1,685,352	69.46	12,702	.55
1982	1,791,913	72.30	13,235	.55
1983	2,074,159	81.95	13,984	.59
1984	2,234,900	86.64	15,155	.57
1985	2,771,642	105.13	16,065	.65
1986	3,388,590	126.10	16,319	.77

Sources: 1978-86, State Controller's Annual Reports; 1982, U.S. Department of Commerce, Bureau of Economic Analysis, and California Department of Finance estimates (as revised).



**STATE OF CALIFORNIA  
COMPARISON OF NATIONAL TO STATE POPULATION  
CALENDAR YEARS 1940-1985**

<u>Year</u>	<u>United States Population</u>	<u>Average Annual Percentage Increase</u>	<u>California Population</u>	<u>Average Annual Percentage Increase</u>	<u>California as Percent of United States</u>
1940	132,457,000		6,950,000		5.2
1950	151,868,000	1.5	10,643,000	5.3	7.0
1960	179,979,000	1.9	15,863,000	4.9	8.8
1970	204,878,000	1.4	20,039,000	2.6	9.8
1980	228,861,000	1.2	23,780,000	1.9	10.4
1981	231,222,000	1.0	24,265,000	2.0	10.5
1982	233,599,000	1.0	24,786,000	2.2	10.6
1983	235,796,000	.9	25,311,000	2.1	10.7
1984	238,044,000	1.0	25,795,000	1.9	10.8
1985	240,123,000	.9	25,365,000	2.2	11.0

Sources: U.S. Department of Commerce, Bureau of the Census, Current Population Reports; California Department of Finance estimates (as revised).

**STATE OF CALIFORNIA  
COMPARISON OF NATIONAL TO STATE PERSONAL INCOME  
CALENDAR YEARS 1970-1985**

Year	United States		California		California as a Percent of United States
	Personal Income (In Millions)	Percent Change	Personal Income (In Millions)	Percent Change	
1970	\$ 825,500		\$ 95,072		11.5
1971	888,500	7.6	100,923	6.2	11.4
1972	976,100	9.9	110,266	9.3	11.3
1973	1,095,100	12.2	121,698	10.4	11.1
1974	1,204,100	10.0	136,092	11.8	11.3
1975	1,307,500	8.6	149,504	9.9	11.4
1976	1,446,100	10.6	167,393	12.0	11.6
1977	1,601,800	10.8	186,735	11.6	11.7
1978	1,806,200	12.8	214,423	14.8	11.9
1979	2,026,700	12.2	244,168	13.9	12.0
1980	2,252,000	11.1	275,801	13.0	12.2
1981	2,512,300	11.6	308,221	11.8	12.3
1982	2,660,900	5.9	328,028	6.4	12.3
1983	2,833,200	6.5	353,949	7.9	12.5
1984	3,101,400	9.5	390,909	10.4	12.6
1985	3,310,500	6.7	423,566	8.4	12.8

Sources: U.S. Department of Commerce, Bureau of Economic Analysis (as revised). (Data for United States represent the total for the 50 states and the District of Columbia.)

**STATE OF CALIFORNIA  
COMPARISON OF NATIONAL TO STATE  
PER CAPITA PERSONAL INCOME  
CALENDAR YEARS 1970-1985**

<u>Year</u>	<u>United States</u>		<u>California</u>		<u>California as a Percent of United States</u>
	<u>Per Capita Personal Income</u>	<u>Percent Change</u>	<u>Per Capita Personal Income</u>	<u>Percent Change</u>	
1970	\$ 4,051		\$ 4,748		117.2
1971	4,296	6.0	4,960	4.5	115.5
1972	4,664	8.6	5,357	8.0	114.9
1973	5,181	11.1	5,832	8.9	112.6
1974	5,644	8.9	6,428	10.2	113.9
1975	6,069	7.5	6,942	8.0	114.4
1976	6,647	9.5	7,631	9.9	114.8
1977	7,289	9.7	8,355	9.5	114.6
1978	8,133	11.6	9,388	12.4	115.4
1979	9,025	11.0	10,500	11.8	116.3
1980	9,910	9.8	11,590	10.4	117.0
1981	10,940	10.4	12,702	9.6	116.1
1982	11,470	4.8	13,235	4.2	115.4
1983	12,093	5.4	13,984	5.7	115.6
1984	13,114	8.4	15,155	8.4	115.6
1985	13,867	5.7	16,065	6.0	115.9

Sources: U.S. Department of Commerce, Bureau of Economic Analysis (as revised).

**STATE OF CALIFORNIA  
CIVILIAN LABOR FORCE FOR  
RESIDENT POPULATION AGE 16 AND OVER  
CALENDAR YEARS 1973-1985**

<u>Year</u>	<u>Labor Force Trends</u> (In Thousands)			<u>Unemployment Rate</u>	
	<u>Total Labor Force</u>	<u>Employed</u>	<u>Unemployed</u>	<u>United States</u>	<u>California</u>
1973	8,910	8,286	624	4.9%	7.0%
1974	9,317	8,638	679	5.6	7.3
1975	9,539	8,598	941	8.5	9.9
1976	9,896	8,990	906	7.7	9.2
1977	10,367	9,513	853	7.1	8.2
1978	10,911	10,137	775	6.1	7.1
1979	11,268	10,566	702	5.8	6.2
1980	11,584	10,794	790	7.1	6.8
1981	11,812	10,938	875	7.6	7.4
1982	12,178	10,967	1,210	9.7	9.9
1983	12,281	11,095	1,187	9.6	9.7
1984	12,619	11,638	981	7.5	7.8
1985	12,937	12,007	931	7.2	7.2

Source: California Employment Development Department (as revised).

STATE OF CALIFORNIA  
PERSONS EMPLOYED IN  
PRINCIPAL MANUFACTURING INDUSTRIES  
CALENDAR YEARS 1982 AND 1985  
(IN THOUSANDS)

Industry	1982	1985	Percent Change
Furniture and fixtures	49.0	59.3	21.0
Lumber and wood products	46.3	55.8	20.5
Electric and electronic equipment	358.0	418.3	16.8
Textile mill products	12.4	13.9	12.1
Printing and publishing	124.5	139.6	12.1
Transportation equipment	266.3	295.5	11.0
Instruments and related products	102.4	112.8	10.2
Rubber and miscellaneous plastic products	61.2	65.3	6.7
Paper and allied products	37.3	39.8	6.7
Fabricated metal products	138.8	146.3	5.4
Apparel	102.4	107.3	4.8
Machinery, except electrical	227.6	228.0	.2
Stone, clay, and glass products	50.4	50.3	(.2)
Chemicals and allied products	65.7	63.2	(3.8)
Food and kindred products	182.5	170.6	(6.5)
Petroleum and coal products	31.7	29.6	(6.6)
Primary metal products	47.6	41.6	(12.6)
Miscellaneous	43.2	35.3	(18.3)
Leather and leather products	10.5	7.6	(27.6)
Total	<u>1,957.8</u>	<u>2,080.1</u>	6.2

Sources: U.S. Department of Commerce, Bureau of the Census; California Employment Development Department (as revised).

cc: Members of the Legislature  
Office of the Governor  
Office of the Lieutenant Governor  
State Controller  
Legislative Analyst  
Assembly Office of Research  
Senate Office of Research  
Assembly Majority/Minority Consultants  
Senate Majority/Minority Consultants  
Capitol Press Corps